



## THE LIBRARY OF CONGRESS

101 INDEPENDENCE AVENUE, S.E.

WASHINGTON, D.C. 20540-1300

OFFICE OF THE ASSOCIATE LIBRARIAN  
FOR STRATEGIC INITIATIVES

Fiscal 2002 was an exciting year for the Library of Congress. The Library continued to play a leadership role in the important arena of digital information. The Library is continuing to make more of its collections available online, while at the same time leading an initiative to develop an infrastructure for collecting and preserving digital materials. To meet the technology challenges of the 21<sup>st</sup> century, the Librarian of Congress established the Office of Strategic Initiatives (OSI) in 2001. OSI includes the National Digital Library Program (NDLP) and Information Technology Services, and it is responsible for strategic planning for the Library's internal and external digital initiatives. The consolidation of digital planning and operations in OSI will further streamline and accelerate the Library's digital activities.

American Memory, the Library's online archives of historically significant educational content, remains one of the Library's most successful initiatives. American Memory owes much of its success to its unique public and private partnerships. This site was launched in fiscal year 1995, when Congress agreed to support the creation of the National Digital Library Program with a \$15 million of appropriations over five years with the Library agreeing to raise an additional \$45 million in private funds. Private funds raised were deposited into the National Digital Library Trust Fund (NDLTF). Scores of financial contributions to the NDLTF of varying sizes from donors across the nation transformed American Memory from an idea into a reality.

During fiscal 2002, the NDLP continued to receive widespread acclaim as a provider of free, high-quality, educationally important American cultural and historical resources on the Library's American Memory Web site. During this time, the NDLTF was primarily used to continue scanning the Library's historically significant archival collections, and 14 new multimedia historical collections were added to the American Memory Web site, bringing the total to 116. Nine existing collections were expanded with more than 380,000 digital items. At year's end, more than 7.8 million items from the Library of Congress and other institutions were available online or in digital archives.

The NDLTF was also used for educational outreach. A teacher from the Arlington, Virginia, School District spent a year at the Library producing teacher-directed materials for the Learning Page Web site, a key component of the Library's outreach to K-12 teachers and students. Established in 1996, the Learning Page helps teachers use the Library's online materials by including ideas and instructions for using specific collections and topics.

Please find enclosed the NDLTF financial statements and independent auditors report for fiscal 2002.

A handwritten signature in cursive script that reads "Laura E. Campbell".

Laura E. Campbell  
Associate Librarian for  
Strategic Initiatives

# NATIONAL DIGITAL LIBRARY TRUST FUND

## STATEMENT OF FINANCIAL POSITION

September 30, 2002

### **ASSETS**

Cash	\$	408,059
Investments (Note 2):		
U.S. Treasury Market Based Securities		14,814,609
U.S. Treasury Permanent Loan		1,462,892
Growth and Income Pool		41,273
Total Investments		<u>16,318,774</u>
Receivables:		
Pledges (Note 3)		2,396,100
Accrued interest		67,092
Accounts		162
Total Receivables		<u>2,463,354</u>
<b>Total assets</b>	<b>\$</b>	<b><u><u>19,190,187</u></u></b>

### **LIABILITIES AND NET ASSETS**

Accounts payable	\$	70,784
<b>Total liabilities</b>		<u>70,784</u>

### **NET ASSETS (Note 4)**

Temporarily Restricted		<u>19,119,403</u>
<b>Total liabilities and net assets</b>	<b>\$</b>	<b><u><u>19,190,187</u></u></b>

The accompanying notes are an integral part of these financial statements.

# NATIONAL DIGITAL LIBRARY TRUST FUND

## STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2002

### **CHANGES IN UNRESTRICTED NET ASSETS**

#### **REVENUE**

Interest	528,096
Net unrealized loss and realized gain on investments (Note 2)	(9,855)
Other Revenue-Royalties	539
Net assets released from restrictions	<u>439,745</u>
<b>Total revenue</b>	<u>958,525</u>

#### **EXPENSES**

Digitizing and other services	603,722
Professional and consultant services	115,011
Personnel costs	103,982
Awards to other archival institutions (Ameritech)	87,301
Entertainment	27,565
Services of the Library and other agencies	15,000
Travel and transportation	9,130
Non-capitalized equipment	7,554
Books and library materials	5,838
Printing, publishing, and photoduplicating	4,011
Office supplies	<u>299</u>
<b>Total expenses</b>	<u>979,413</u>

#### **OTHER CHANGES**

Transfer from Other Funds (Note 6)	20,888
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#### **Changes in Unrestricted Net Assets**

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### **CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Donations (Note 5)	73,890
Net assets released from restrictions	<u>(439,745)</u>
<b>Changes in Temporarily Restricted Net Assets</b>	<u>(365,855)</u>

**Decrease in Net Assets** (365,855)

**Net Assets at Beginning of year** 19,485,258

**Net Assets at End of year** \$ 19,119,403

The accompanying notes are an integral part of these financial statements.

# NATIONAL DIGITAL LIBRARY TRUST FUND

## STATEMENT OF CASH FLOWS

For the Fiscal Year Ended September 30, 2002

Cash flows from operating activities:	
Donations Received	\$ 800,539
Interest Received	535,942
Transfer from other funds	20,888
Cash paid to others	(1,172,105)
Cash paid to employees	(95,023)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 90,241</b>
Cash flows from investing activities:	
Investment in U.S. Treasury Market- Based Securities	\$ (1,721,943)
Investment in U.S. Treasury Permanent Loan	(1,231,061)
Investment in Growth and Income Pool	(723)
Redemption of Investment in U.S. Treasury Market Based Securities	2,335,480
Redemption of Investment in U.S. Treasury Permanent Loan	872,871
<b>Net Cash Used by Investing Activities</b>	<b>\$ 254,624</b>
<b>Net (Decrease) in Cash</b>	<b>344,865</b>
<b>Cash at Beginning of Year</b>	<b>63,194</b>
<b>Cash at End of Year</b>	<b>\$ 408,059</b>
Reconciliation of Changes in Net Assets to Net Cash Provided by Operating Activities	
<b>Change in Net Assets</b>	<b>\$ (365,855)</b>
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Non-cash loss on mutual fund investments	10,579
Decrease in pledges receivables (Note 3)	726,110
Increase in accounts receivables	(162)
Decrease in accrued interest receivables	7,121
Decrease in accrued payroll and annual leave	-
Increase in accounts payable	(287,552)
Decrease in operating materials & supplies	-
<b>Total Adjustments</b>	<b>456,096</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 90,241</b>

The accompanying notes are an integral part of these financial statements.

**NATIONAL DIGITAL LIBRARY TRUST FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2002**

**NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

**A. DESCRIPTION OF FUND**

The National Digital Library Trust Fund (NDLTF) supports the mission and strategic objectives of the National Digital Library Program (NDLP). The Program is a public-private partnership created to digitize American history and cultural materials, to build a broad-based national coalition of digital archives and libraries, to provide access to electronic materials, to develop a catalog for electronic materials, to promote standards and practices for the use of digital materials, and to provide other related future services. The NDLP is an unsurpassed on-line resource for the study of American history and culture. Making priceless treasures of American history accessible to all Americans in their own local communities is central to the Library's goal of enriching education in America and widening access to the documentary record of America's knowledge and creativity.

The National Digital Library Trust Fund consists of the following sub-accounts:

- NDLP General Trust
- Scott Trust
- Kellogg Trust
- Ameritech Trust
- McCormick Tribune Trust
- Koch Foundation Trust
- Mellon Foundation Trust
- Microsoft Trust
- Pew Charitable Trust

The NDLTF is the primary private sector source of funding for the NDLP. The program also receives funding from appropriated funds, a gift fund, and an endowment fund.

The NDLTF was approved by the Library of Congress Trust Fund Board and the Joint Committee on the Library in September 1994 and operates on a fiscal year beginning October 1 and ending September 30.

Significant accounting policies followed by the NDLTF are presented below.

## **B. BASIS OF PRESENTATION**

The NDLTF's financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles.

The NDLTF adopted financial reporting standards applicable to not-for-profit organizations. The financial statements are prepared in accordance with Financial Accounting Standards No. 117, and recognize net assets based on the existence of applicable restrictions limiting their use.

Temporarily restricted net assets result from donor-imposed restrictions that permit the Fund to use or expend the assets after the restriction has been satisfied. When a donor-imposed restriction is satisfied, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Any excess assets not used by the NDLTF to satisfy specific donor restrictions are refunded to the donor or used for other NDLTF restricted activities.

Unrestricted net assets result from the expiration of donor-imposed restrictions on contributions. These assets are available to the Fund for use in support of current operations. The Library of Congress provides support services to the NDLTF and the cost of these services are, by their nature, indirect, difficult to quantify, and financed with appropriated funds of the library. To the extent that these services are provided, they are not considered operating expenses of the NDLTF.

## **C. USE OF ESTIMATES**

The preparation of the NDLTF's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

## **D. DONATIONS AND REVENUE RECOGNITION**

The NDLTF records as donation revenue amounts received in the form of cash, promises or pledges to give. All donations are temporarily restricted for the purpose of the NDLTF and are not available for the support of general Library activities. Unconditional promises or pledges to give are recognized as a pledges receivable. Multi-year pledges or promises due over a period of time are discounted to their present value, based upon prevailing interest rates, and recognized in the period of initial pledge.

## **E. CAPITAL ASSETS**

The financial statements do not include capital assets, which are purchased for the Library of Congress and other funds. Capital assets are expensed when purchased and ownership is transferred to the Library of Congress.

## **F. INCOME TAX**

The NDLTF operates for the benefit of the Library of Congress, which is an instrument of the United States and, as such, is not subject to income tax.

## **G. INVESTMENT POLICY**

The Library of Congress Trust Fund Board determines the investment policy for the Library's Trust Funds. The policy provides three options for investment of the NDLTF funds:

- a permanent loan with the U.S. Treasury
- a pool of U.S. Treasury market-based securities
- a private investment pool consisting of five stock funds and one money market fund. The funds recommended by the Library of Congress Trust Fund Board's investment committee and approved by the Board are:
  - Vanguard Money Market Prime Fund
  - Fidelity Fifty Fund
  - Fidelity Stock Selector
  - Vanguard Total Stock Market Index Fund
  - Vanguard 500 Index Fund
  - RS The Emerging Growth Fund

Investments in U.S. market-based securities are stated at cost net of any unamortized premium or discount, which approximates market value at September 30, 2002. The permanent loan is an interest bearing par value investment, which equals the market value. Stock and money market mutual funds are stated at current market value.

## **NOTE 2 - INVESTMENTS**

### **A. U.S. Treasury**

An act of Congress approved March 3, 1925, and subsequently amended, permits up to \$10 million of trust funds to be invested with the United States Treasury as a perpetual loan, at a floating interest rate, adjusted monthly, but no less than four percent per annum. At September 30, 2002, \$1,462,892 of NDLTF funds was invested in the U.S. Treasury permanent loan at an interest rate of 4.375 percent. Other investments with U.S. Treasury were as follows:

Investment	Par	Unamortized Premium	Unamortized Discount	Amortized Costs
NDL General Trust	\$13,799,373	\$ 82,727	(\$20,065)	\$13,902,165
Scott Trust *	479,143	2,874	(697)	482,714
Ameritech Trust	154,340	926	(225)	155,491
McCormick Tribune Trust	101,599	609	(148)	102,356
Pew Charitable Trust	170,612	1,023	(248)	171,883
Total Trusts	\$14,705,067	\$ 88,159	(\$21,383)	\$14,814,609

\* The investments are accrued in the General Trust Fund

## B. Mutual Funds

The NDLTF invested \$61,687 in the growth and income pool (non-Treasury mutual fund investments) through the end of fiscal year 2002. Market value of the growth and income pool as of September 30, 2002 totaled \$41,273.

The net loss on investments of \$9,855 consists of the following: \$723 realized gain of money market dividends, and \$10,578 unrealized loss on the growth and income pool.

## NOTE 3 - PLEDGES

Contributions of unconditional promises to give (pledges) to the NDLTF are recognized as revenue in the period received. They are recorded at their present value using a market discount rate. Accretion of the discount in subsequent years is also recorded as revenue. Outstanding pledges of \$2,500,000 at September 30, 2002, were discounted through fiscal year 2006 at a market discount rate and are included in the statement of financial position at their discounted present value of \$2,396,100. The amounts due in future years at their current discounted value are: \$985,800 in fiscal 2003; \$483,350 in fiscal 2004; \$471,150 in fiscal 2005; and \$455,800 in fiscal 2006.

## NOTE 4 - NET ASSETS

Net assets includes undelivered orders of \$726,100 which are funds that have been obligated for goods and services not yet received for NDLTF operations and designated projects. All assets are temporarily restricted for the purpose of supporting the objectives of the National Digital Library Program.

## **NOTE 5 - DONATIONS**

The NDLTF donations exclude a grant from the Ford Foundation of \$500,000 in support of the National Digital Library received as a gift fund and an endowment from the Harissios Papamarkou Chair in Education Fund.

## **NOTE 6 – TRANSFER FROM OTHER FUNDS**

The NDLTF received a transfer of \$20,888 in earned interest income from the Ford Foundation gift fund that was earned by the gift fund during fiscal years 1998 and 1999. While, as stated above, the gift itself is not in the NDLTF but is recognized as a gift of the National Digital Library, the interest may be used for any activities under the scope of the National Digital Library and thus was transferred into the NDLTF for fund ongoing activities.

## **NOTE 7 - RETIREMENT PLANS**

Employees of the NDLTF participate in two different retirement plans. Civil Service employee participates in the Civil Service Retirement System (CSRS) or the Federal employees' Retirement System (FERS). FERS is the system in effect for most employees hired after December 31, 1983.

In fiscal 2002, the NDLTF paid approximately \$6,841 to fund retirement benefits, excluding FICA Taxes.

## **NOTE 8 - EXPENSES BY FUNCTIONAL CLASSIFICATION**

As permitted by Financial Accounting Standards No. 117, the NDLTF has elected to present its operating expenses by natural classification in its Statement of Activities for the fiscal year ended September 30, 2002. The functional breakdown of these expenses is as follows:

National Digital Library Program	\$ 979,413
Fund-raising	\$ _____ -
Total Expenses	<u>\$ 979,413</u>

**NATIONAL DIGITAL LIBRARY TRUST FUND**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**  
 SEPTEMBER 30, 2002

	NDL General Trust	Scott Trust	Kellogg Trust	Ameritech Trust	McCormick Tribune Trust	Koch Foundation Trust	Pew Charitable Trust	Combined	Elimination	Consolidated
<b>ASSETS</b>										
Cash	\$ 397,613	\$ 5,526	\$ -	\$ 1,780	\$ 1,172	\$ -	\$ 1,968	\$ 408,059	\$ -	\$ 408,059
Investments (Note 2)										
U.S. Treasury Market Based Securitie	13,902,166	482,713	-	155,491	102,356	-	171,883	14,814,609	-	14,814,609
U.S. Treasury Permanent Loan	1,462,892	-	-	-	-	-	-	1,462,892	-	1,462,892
Growth and Income Pool	41,273	-	-	-	-	-	-	41,273	-	41,273
Total Investments	15,406,331	482,713	-	155,491	102,356	-	171,883	16,318,774	-	16,318,774
Receivables:										
Pledges (Note 3)	2,396,100	-	-	-	-	-	-	2,396,100	-	2,396,100
Accrued Interest	67,092	-	-	-	-	-	-	67,092	-	67,092
Accounts	162	-	-	-	-	-	-	162	-	162
Total Receivables	2,463,354	-	-	-	-	-	-	2,463,354	-	2,463,354
<b>Total Assets</b>	<b>\$ 18,267,298</b>	<b>\$ 488,239</b>	<b>\$ -</b>	<b>\$ 157,271</b>	<b>\$ 103,528</b>	<b>\$ -</b>	<b>\$ 173,851</b>	<b>\$ 19,190,187</b>	<b>\$ -</b>	<b>\$ 19,190,187</b>
<b>LIABILITIES &amp; NET ASSETS</b>										
Accounts payable	\$ 50,261	\$ 8,959	\$ -	\$ 9,756	\$ -	\$ -	\$ 1,808	\$ 70,784	\$ -	\$ 70,784
<b>Total Liabilities</b>	<b>50,261</b>	<b>8,959</b>	<b>-</b>	<b>9,756</b>	<b>-</b>	<b>-</b>	<b>1,808</b>	<b>70,784</b>	<b>-</b>	<b>70,784</b>
<b>NET ASSETS (Note 4)</b>										
Temporarily restricted	18,217,037	479,280	-	147,515	103,528	-	172,043	19,119,403	-	19,119,403
<b>Total Liabilities and Net Assets</b>	<b>\$ 18,267,298</b>	<b>\$ 488,239</b>	<b>\$ -</b>	<b>\$ 157,271</b>	<b>\$ 103,528</b>	<b>\$ -</b>	<b>\$ 173,851</b>	<b>\$ 19,190,187</b>	<b>\$ -</b>	<b>\$ 19,190,187</b>

**NATIONAL DIGITAL LIBRARY TRUST FUND  
CONSOLIDATING SCHEDULE OF ACTIVITIES**

For the Fiscal Year Ended September 30, 2002

	NDL General Trust	Scott Trust	Kellogg Trust	Ameritech Trust	McCormick Tribune Trust	Koch Foundation Trust	Pew Charitable Trust	Combined	Eliminations	Consolidated
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>										
<b>REVENUE</b>										
Interest	\$ 505,989	\$ -	\$ -	\$ 6,634	\$ 5,312	\$ -	\$ 10,161	\$ 528,096	\$ -	\$ 528,096
Net unrealized and realized loss on investments (Note 2):	(9,855)	-	-	-	-	-	-	(9,855)	-	(9,855)
Other Revenues-Royalties	539	-	-	-	-	-	-	539	-	539
Net assets released from restrictions	(100,570)	112,782	-	85,707	121,695	4,052	216,079	439,745	-	439,745
<b>Total revenue</b>	<b>396,103</b>	<b>112,782</b>	<b>-</b>	<b>92,341</b>	<b>127,007</b>	<b>4,052</b>	<b>226,240</b>	<b>958,525</b>	<b>-</b>	<b>958,525</b>
<b>EXPENSES</b>										
Digitizing and other services	252,045	800	-	-	127,007	(2,370)	226,240	603,722	-	603,722
Professional and consultant services	80,755	38,376	(4,120)	-	-	-	-	115,011	-	115,011
Personnel costs	32,186	71,796	-	-	-	-	-	103,982	-	103,982
Awards to other archival institutions (Ameritech)	-	-	-	87,301	-	-	-	87,301	-	87,301
Entertainment	27,565	-	-	-	-	-	-	27,565	-	27,565
Services of the Library and other agencies	10,000	-	-	5,000	-	-	-	15,000	-	15,000
Travel and transportation	4,311	1,797	-	40	-	2,983	-	9,130	-	9,130
Non-capitalized equipment	7,554	-	-	-	-	-	-	7,554	-	7,554
Books and library materials	5,838	-	-	-	-	-	-	5,838	-	5,838
Printing, publishing, and photoduplicating	3,997	14	-	-	-	-	-	4,011	-	4,011
Office supplies	299	-	-	-	-	-	-	299	-	299
<b>Total expenses</b>	<b>424,550</b>	<b>112,782</b>	<b>(4,120)</b>	<b>92,341</b>	<b>127,007</b>	<b>613</b>	<b>226,240</b>	<b>979,413</b>	<b>-</b>	<b>979,413</b>
<b>OTHER CHANGES</b>										
Transfer from Other Funds (Note 6)	28,447	-	(4,120)	-	-	(3,439)	-	20,888	-	20,888
<b>Changes in Unrestricted Net Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGES IN TEMPORARY RESTRICTED NET ASSETS</b>										
Donations (Note 5)	73,890	-	-	-	-	-	-	73,890	-	73,890
Net assets released from restrictions	100,570	(112,782)	-	(85,707)	(121,695)	(4,052)	(216,079)	(439,745)	-	(439,745)
<b>Changes in Temporary Restricted Net Assets</b>	<b>174,460</b>	<b>(112,782)</b>	<b>-</b>	<b>(85,707)</b>	<b>(121,695)</b>	<b>(4,052)</b>	<b>(216,079)</b>	<b>(365,855)</b>	<b>-</b>	<b>(365,855)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>174,460</b>	<b>(112,782)</b>	<b>-</b>	<b>(85,707)</b>	<b>(121,695)</b>	<b>(4,052)</b>	<b>(216,079)</b>	<b>(365,855)</b>	<b>-</b>	<b>(365,855)</b>
<b>Net Assets at Beginning of Year</b>	<b>18,042,577</b>	<b>592,062</b>	<b>-</b>	<b>233,222</b>	<b>225,223</b>	<b>4,052</b>	<b>388,122</b>	<b>19,485,258</b>	<b>-</b>	<b>19,485,258</b>
<b>Net Assets at End of Year</b>	<b>\$ 18,217,037</b>	<b>\$ 479,280</b>	<b>\$ -</b>	<b>\$ 147,515</b>	<b>\$ 103,528</b>	<b>\$ -</b>	<b>\$ 172,043</b>	<b>\$ 19,119,403</b>	<b>\$ -</b>	<b>\$ 19,119,403</b>



## Independent Auditor's Report

### To the Librarian of Congress and the National Digital Library Trust Fund

We have audited the accompanying statement of financial position of the National Digital Library Trust Fund (the Fund) as of September 30, 2002, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

#### SUMMARY

As stated in our opinion, the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in no material weaknesses.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The following sections discuss our opinion on the Fund's financial statements, our consideration of the Fund's internal control over financial reporting, our tests of the Fund's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

#### OPINION ON FINANCIAL STATEMENTS

We have audited the accompanying statement of financial position of the Fund as of September 30, 2002, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2002, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information contained in the consolidating schedules of financial position and activities is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over financial reporting that we have reported to management of the Fund in a separate letter dated February 28, 2003.

## COMPLIANCE

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use of the Librarian of Congress, management of National Digital Library Fund, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

  
February 14, 2003